

## **Forecast Postalised Tariff 2020/21 – 2024/25**

### **Postalised Tariff Explanatory Note**

#### **1 Introduction**

Pursuant to condition 2A.4.3.1 (b) of the Gas Conveyance licences granted to Gas Networks Ireland (UK), Premier Transmission Limited, Belfast Gas Transmission Limited and West Transmission Limited, the Postalisation System Administrator (“PSA”) has completed its annual calculation of the forecast postalised tariff for 2020/21 and the following four gas years.

The Utility Regulator reviews the inputs to the tariff calculation (the Forecast Required Revenues (FRRs) and the forecast volume and capacity figures as submitted by the Transmission System Operators (TSOs)). It should be noted that accurate forecasting is an integral part of the tariff setting process.

This note explains what the inputs for calculating the postalised tariff are based on and explains any differences from the previous year’s forecasts. It should also be noted that the forecasts for the gas years 2021/22 to 2024/25 are included for indicative purposes only.

#### **2 Summary**

The capacity tariff for 2020/21 has increased considerably by 12% compared to the GY 2019/20 forecast figures whilst the forecast 2020/21 commodity tariff is significantly lower than the 2019/20 tariff by 40%. This is primarily a result of the change in the capacity commodity split as the capacity, volumes and FRR figures vary only slightly from GY 2019/20.

#### **3 Inputs**

##### **3.1 Forecast Required Revenues**

(i). Premier Transmission Limited (PTL)

The calculation of the PTL Forecast Required Revenue is based upon the existing licence formula where the figures are made up of the repayments on the £107m bond at a rate of 2.461% as well as forecast Operating Expenditure.

The PTL Forecast Required Revenue is reduced for the forecast payment made by Stranraer.

(ii). Gas Networks Ireland (UK) (GNI (UK))

The GNI (UK) Forecast Required Revenue is based on capital expenditure and an allowance for controllable and uncontrollable operating expenditure as part of the GNI (UK) 2017/18-2021/22 Price Control Determination. GNI (UK)'s Capital Expenditure is recovered at a constant real amount at a rate of return of 2.01% (vanilla).

(iii). Belfast Gas Transmission Limited (BGTL)

The BGTL Forecast Required Revenue is based on the repayment of the £109m bond at a rate of 2.387% plus forecast operating expenditure.

(iv). West Transmission Limited (WTL)

The WTL Forecast Required Revenue is based on the repayment of c.£202.5m debt at a rate linked to the Retail Price Index with no additional interest premium applied to the nominal value (including over £80m to finance intermediate pressure pipelines owned by SGN Natural Gas and Phoenix Natural Gas) plus forecast operating expenditure.

### **3.2 Capacity**

The forecast capacity figures for the two power stations and the three distribution markets are based upon the actual and/or forecast peak-day capacity requirements. The forecast entry capacity bookings for each product, both annual and non-annual, are submitted by suppliers using the relevant entry point.

### **3.3 Volumes**

Volume figures are based on end customer's best estimate using the number of customers, load factors and electricity generation output assumptions and are submitted by suppliers.

### **3.4 Capacity Commodity Split**

The capacity commodity split for 2020/21 is 85:15 which varies from preceding years which were split 75:15. The split will change to 95:5 for GY 2021/22 and all successive years.

## **4 Difference between the forecast 2019/20 Annual Tariff and forecast 2020/21 Annual Tariff**

As can be seen from Table 1 the 2020/21 tariffs vary substantially from 2019/20. Small decreases in total forecast capacity (entry and exit combined) and forecast commodity volumes are offset by a drop in the total FRR primarily driven by the lower GNI (UK) requirement (see Section 4.3) but it is the change in the capacity commodity split that ultimately has driven the significant

magnitude of the changes as Tables 2 and 3 show the corresponding chunks of revenue that must now be recovered through each type of product compared with previously with far greater revenue now required to be collected through capacity products than commodity.

Table 1: Annual Forecast Tariffs

Annual Forecast Tariffs	2019/20	2020/21	Difference
Entry Capacity Charge (£ per kWh/d booked)	0.28307	0.31648	+11.80%
Exit Capacity Charge (£ per kWh/d booked)	0.28307	0.31648	+11.80%
Commodity Charge (£ per kWh)	0.0008620	0.0005160	-40.14%

Table 2: Capacity Charge Calculation

Capacity Charge	2019/20	2020/21	Difference
Total Weighted Entry & Exit forecast capacity bookings (kWh/d)	163,703,832	162,618,693	-0.66%
Total capacity forecast required revenue (£)	46,339,661	51,465,495	+11.06%
Capacity Tariff (£ per kWh)	0.28307	0.31648	+11.80%

Table 3: Commodity Charge Calculation

Commodity Charge	2019/20	2020/21	Difference
Total forecasted commodity (kWh)	17,918,554,465	17,601,895,715	-1.77%
Total commodity forecast required revenue (£)	15,466,554	9,082,146	-41.20%
Commodity Tariff (£ per kWh)	0.0008620	0.0005160	-40.14%

## 4.1 Capacity and Volumes

### Calculation of Capacity Price

Exit capacity is available as an annual product only. Entry capacity is available as yearly, quarterly, monthly and daily products (day ahead and within day).

In order to determine the forecast capacity price for each product it is necessary to calculate the “Total Weighted Forecast Capacity” which will be utilised for the forthcoming Gas Year. In order to do this a product multiplier<sup>1</sup> must be applied

<sup>1</sup> <http://gmo-ni.com/assets/documents/Gas-Product-Multipliers-and-Time-Factors-Table.pdf>

to the forecast bookings for each product, so that the capacity for each product is on an annual basis, and then these are summed for the entire Gas Year.

The Total Weighted Forecast Capacity is then used to calculate a forecast price for the Gas Year for annual (entry and exit) capacity products by dividing the FRR by the Total Weighted Forecast Capacity.

The Forecast Postalised Annual Capacity Charge is then used as a 'reference price', to determine the reserve price for each of the non-annual entry products to be applied in Auctions. Reserve prices for each product are calculated by applying the relevant product multiplier.

### Capacity

The analysis of the forecast capacity data has been reviewed against previous year's capacity usage, while also accounting for future expansion and an increase in network usage.

Table 4 shows that there has been a decrease of 2.35% in the total forecast entry capacity figures for 2020/21 compared to 2019/20 however the make-up of the forecast bookings is very different. The ending of initial entitlements of annual entry capacity bookings enables Shippers to optimise their bookings in GY 2020/21 with lower levels of annual capacity topped up with daily capacity where necessary which accounts for the corresponding large changes in the forecasted figures for these two particular products.

Table 4: Moffat Entry point forecast annual capacity (kWh/day)

Weighted Entry Capacity	2019/20	2020/21	Difference
Annual Capacity	66,429,484	49,815,000	-25.01%
Quarterly Capacity	-	697,969	∞
Monthly Capacity	1,128,686	1,043,491	-7.55%
Daily Capacity	5,958,361	20,235,420	+239.61%
Total Entry	73,516,531	71,791,879	-2.35%

Table 5 shows that there is an overall increase of 0.71% in the forecast exit capacity figures for 2020/21 compared to 2019/20, with the forecast Distribution Sector increases offsetting the decrease in Power Generation Capacity.

Table 5: Exit point forecast annual capacity (kWh/day)

Exit Annual Capacity	2019/20	2020/21	Difference
Ballylumford Power Station	23,600,000	21,500,000	-8.90%
Coolkeeragh Power Station	18,766,000	18,766,000	0.00%
Phoenix Distribution Market	34,129,823	35,336,970	+3.54%
Firmus energy Distribution Market	10,751,000	11,430,000	+6.32%
SGN Distribution Market	2,940,478	3,793,844	+29.02%
Total Exit Point Booked Capacity	90,187,301	90,826,814	+0.71%

### Commodity Volumes

Table 6 supports the increases in forecast distribution exit capacity by showing the corresponding growth in associated distribution volumes although in this case the total is offset by a decrease in Power Generation volumes.

Table 6: Forecast Exit Commodity Volumes (kWh)

	2019/20	2020/21	Difference
Ballylumford Power Station	5,273,070,000	4,589,730,000	-12.96%
Coolkeeragh Power Station	5,475,000,000	5,275,800,000	-3.64%
Phoenix Distribution Market	4,650,344,037	4,824,449,176	+3.74%
Firmus energy Distribution Market	1,823,468,428	1,943,323,539	+6.57%
SGN Distribution Market	696,672,000	968,593,000	+39.03%
Total Forecast Volumes	17,918,554,465	17,601,895,715	-1.77%

## 4.2 Entry-Exit Split

The split of revenue to be received from capacity tariffs at all entry points and the revenue from capacity tariffs at all exit points is calculated ex post. It is not a predetermined split therefore is not required as an input to the tariff setting process.

The split of revenue from entry and exit capacity tariffs is determined as an output of the forecast tariff calculation process based on the forecast booking of exit capacity and entry capacity in a gas year.

Table 7: Entry-Exit Split

Entry/Exit Split	2020/21
Forecast Capacity entry proportion	44.15%
Forecast Capacity exit proportion	55.85%

### 4.3 Required Revenues

The total required revenue forecasted for 2020/21 is £60,547,642 compared to last year's 2019/20 figure of £61,786,215. This is a decrease of 2.00%. Table 8 provides a review of the previous years' FRR for comparison.

Table 8: Forecast Required Revenue

Forecast Required Revenue (FRR)	PTL £	BGTL £	GNI(UK) £	WTL £	Total £
<b>FRR 2019/20</b>	26,443,585	8,553,923	18,782,083	8,006,624	61,786,215
<b>FRR 2020/21</b>	26,015,862	8,567,490	17,463,254	8,501,036	60,547,642
<b>% Change</b>	-1.62%	+0.16%	-7.02%	+6.18%	-2.00%

PTL's 2020/21 FRR has decreased by 1.62% compared to 2019/20.

BGTL's 2020/21 FRR shows a slight increase of 0.16% from 2019/20.

WTL's 2020/21 FRR has increased by 6.18% from 2019/20, the result of an online inspection forecast for 2020/21 and an expected increase in licence fees following full operations.

GNI (UK) forecasted revenue requirement (FRR) for the 2019/20 gas year was £18.8m. This was tied to GT 17 allowances, adjusted for RPI. The revenue included for 2020/21 has been set at £17.5m. This is based on an FRR of c. £18.7m with an adjustment made to account for 'Supplemental Income' pertaining to the SNP Haynestown arrangements of c. £1.2m in 2020/21. The 2020/21 FRR is tied to GT17 allowances.

## 5 Forecast Postalised Tariff for years 2021/22-2024/25

Table 9: Forecast Tariffs GY+1 – GY+4

	2021/22	2022/23	2023/24	2024/25
<b>Entry Capacity Charge (£ per kWh/d booked)</b>	0.35629	0.35365	0.35069	0.34940
<b>Exit Capacity Charge (£ per kWh/d booked)</b>	0.35629	0.35365	0.35069	0.34940
<b>Commodity Charge (£ per kWh)</b>	0.0001717	0.0001701	0.0001691	0.0001773

The forecast tariffs for the years 2021/22 to 2024/25 are provided in Table 9 for indicative purposes only. As mentioned above in paragraph 3.4 the capacity commodity split will change to 95:5 for 2021/22 and all successive years.